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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1941

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECMBER 31, 1941

February 14, 1942

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss Account for the year ended December 31, 1941, and the consolidated balance sheet are presented herewith.

The Company had 97 stores in operation at the end of 1941 as compared with 98 stores at the end of 1940. The increase in volume for the Chain was 23.3%, but the increase store for store was 24.3%.

Our store improvement program continued with the installation of a number of new fronts, interiors and cooling systems. A number of units were enlarged by the installation of elevators and the utilization of upper floors in the buildings now occupied. Our expansion program for 1942 again calls for further consolidation and improvement of the units we already have, and the addition of one large unit in Philadelphia, which we obtained under very favorable terms. When completed it will be one of the finest stores of its kind in the country.

Three regular dividends of $1.25 each were paid during the year, and if favorable conditions in 1942 continue on the basis demonstrated so far this year, the Company will continue the payment of the regular dividends.

Working capital increased from $951,141. in 1940 to $1,128,834. in 1941. The cash balance increased from $734,487 in 1940 to $782,699. in 1941. The inventory increased from $908,254 in 1940 to $1,305,411. in 1941. This larger inventory was purchased at favorable prices to cover a substantial anticipated increase in the business of January, which materialized, and to cover a number of the staple requirements for some of the departments.

In spite of the substantial increase in taxes for Social Security, City, County, State and Federal,—the improvement in net profit was the result of a substantial increase in volume, lower operating expense and lower markdowns.

The volume in January increased 43.4%. Although this big increase was largely the result of a "run" experienced by most retail stores, we nevertheless anticipate a substantial increase for the balance of the year with proportionate improvement in the net result.

Respectfully submitted,

SOL MANGEL,

President

MANGEL STORES CORPORATION

AND SUBSIDIARIES

EXHIBIT A

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1941

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 782,699.22
Accounts receivable — less reserve (including employees' accounts)			422,996.16
Merchandise inventory — at the lower of cost or market, based upon the retail method of inventory valuation			1,305,411.62
TOTAL CURRENT ASSETS			$2,511,107.00
OTHER ASSETS:			
Loans to officers, employees and others — less reserve		$ 9,492.10	
Cash balances, certificates of participation, etc. — suspended banks — less reserve		1.00	
Sundry deposits		2,254.90	11,748.00
FIXED ASSETS:			
Real estate — at values as appraised for the management in June 1932, with subsequent additions at cost, subject to mortgages shown contra	$ 185,370.00		
Less: Reserve for depreciation	24,907.95	160,462.05	
Furniture and fixtures, leasehold improvements, and truck — at values appraised by the management in June, 1932, with subsequent additions at cost	1,239,446.81		
Less: Reserve for depreciation on additions subsequent to June, 1932	512,314.56	727,132.25	887,594.30
DEFERRED CHARGES:			
Unexpired insurance, prepaid expenses, etc.		40,830.95	
Stationery and supplies		5,850.00	46,680.95
GOODWILL			1.00
			$3,457,131.25

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable — merchandise, less discounts			$ 760,576.84
Accounts payable — expenses, taxes, etc.			342,277.22
Customers' credits			43,737.80
Mortgage installments payable within one year			3,781.55
Reserve for Federal income and excess profits taxes			231,900.00
TOTAL CURRENT LIABILITIES			$1,382,273.41
MORTGAGES PAYABLE IN INSTALLMENTS, LESS CURRENT INSTALLMENTS SHOWN ABOVE:			
Mortgage payable through October 8, 1945		$ 26,000.00	
Mortgage payable through October 28, 1957		36,189.00	62,189.00
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock—$5.00 Cumulative, no par value—stated value $25.00 per share — entitled to $100.00 per share and accrued dividends in the event of liquidation — Notes A, C and D			
Authorized and issued — 17,500 shares	$437,500.00		
Less: In treasury — 1,145 shares	28,625.00		
Outstanding — 16,355 shares		408,875.00	
Common Stock — Par Value $1.00 Per Share — Notes A and B:			
Authorized—300,000 shares			
Issued — 177,500 shares	177,500.00		
Less: In treasury — 495 shares	495.00		
Outstanding — 177,005 shares		177,005.00	
		585,880.00	
Surplus — Exhibit B — Note C:			
Capital surplus	700,425.50		
Earned surplus — since January 1, 1936	726,363.34	1,426,788.84	2,012,668.84
			$3,457,131.25

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

Note A — The outstanding capital stock shown on the balance sheet gives effect to the shares to be issued for 50 shares of the previously outstanding 6½% Preferred Stock, par value $100.00 per share, (entitled upon redemption or voluntary liquidation to $110.00 per share plus accrued dividends, and entitled upon involuntary liquidation to $100.00 per share plus accrued dividends) which had not been surrendered for cancellation and exchange as at December 31, 1941, for 50 shares of the new convertible, no par value, Preferred Stock and 150 shares of the new $1.00 par value Common Stock, under the Plan of Recapitalization dated October 14, 1936. Cumulative dividends on said 50 shares of previously outstanding 6½% Preferred Stock amounted to $34.00 per share, or an aggregate amount of $1,700.00, as of the date when the Plan of Recapitalization was consummated. The company may possibly be contingently liable, pending the exchange of the 50 shares of old 6½% Preferred Stock.

Note B — 105,000 shares of Common Stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible Preferred Stock.

Note C — The company has been advised by its counsel that, in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,447,417.50 between the liquidation value of its convertible Preferred Stock and the stated value thereof. The Board of Directors, by a resolution dated October 24, 1941, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1940 by the payment of dividends (at December 31, 1940, the consolidated capital surplus amounted to $712,388.00 and was reduced during the year by $11,962.50 representing the excess of the cost over the stated value of convertible Preferred Stock purchased for the treasury). It is contemplated that the Board of Directors, whenever, in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings or earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible Preferred Stock over its aggregate stated value may be greater than the sum of the par value of the Common Stock and surplus.

Note D — As at December 31, 1941, cumulative dividends on the outstanding convertible Preferred Stock, amounting to $13.50 per share or an aggregate of $220,792.50 had not been declared or paid.

The accompanying statements are subject to final determination of the liability for Federal income and excess profits taxes.

EXHIBIT B

MANGEL STORES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1941

CAPITAL SURPLUS — Note C:		
Balance at January 1, 1941	$712,388.00	
Less: Excess of cost over stated value of treasury stock acquired	11,962.50	
CAPITAL SURPLUS AT DECEMBER 31, 1941		$700,425.50
EARNED SURPLUS (Since January 1, 1936) — Note C:		
Balance at January 1, 1941	445,379.75	
Add: Consolidated net income for the year ended December 31, 1941 — Exhibit C	342,939.84	
	788,319.59	
Less: Dividends paid on preferred stock at the rate of $3.75 per share	61,956.25	
EARNED SURPLUS (Since January 1, 1936) at December 31, 1941		726,363.34
		$1,426,788.84

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1941

Net sales		$11,454,613.03
Cost of goods sold, general, administrative and selling expense		10,717,463.71
Net operating profit, before provision for depreciation		737,149.32
Provision for depreciation		123,655.78
Net profit, before other income and other charges		613,493.54
Other income		2,393.06
		615,886.60
Other charges		41,282.03
Consolidated net profit, before provision for Federal income and excess profits taxes		574,604.57
Provision for Federal Income and Excess Profits Taxes:		
Normal income tax and surtax	$120,612.44	
Corporation excess profits tax	111,052.29	231,664.73
Consolidated net profit transferred to Surplus — Exhibit B		$342,939.84

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1941, and the consolidated statements of surplus, and income and profit and loss for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of surplus, and income and profit and loss, together with the Notes to Accounts, present fairly the consolidated position of the Mangel Stores Corporation and its subsidiaries at December 31, 1941, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

NEW YORK, N. Y.

February 11, 1942.

S. D. LEIDESDORF & CO.